



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.07

Required Report - public distribution

Date: 5/23/2007

GAIN Report Number: PK7010

Pakistan

Cotton and Products

Cotton Annual: 2007

2007

Approved by:

James Dever, Acting Agricultural Councilor, U.S Embassy, Islamabad

Prepared by:

Mohammad Shafiq Ur Rehman, Ag Specialist, U.S Embassy, Islamabad

Report Highlights:

The MY 2007/08 cotton forecast is 2.265 million metric tons (MMT, lint basis), the second largest ever. Progressive textile mills are focusing on producing better-quality products, particularly for the export market. Pakistan is a major cotton importer, especially for U.S. upland and Pima cotton. Consumption is forecast at 2.736 MMT, marginally less than the previous year. With domestic prices increasing mills are finding the importation of upland cotton increasingly attractive. Recently, the GOP has allowed import of long staple cotton through land routes from India and Central Asia. This year Pakistani farmers are expected to plant about 30 percent of their cotton crop in illegal Bt. Varieties.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Islamabad [PK1]
[PK]

Table of Contents

| | |
|-------------------------------------------------------|----------|
| Executive Summary | 3 |
| Table 1: Cotton Production, Supply and Demand | 3 |
| Production | 3 |
| Status of Bt Cotton | 4 |
| Production Policy | 4 |
| Consumption..... | 5 |
| Table 2: Cotton and Synthetic Fiber Consumption | 5 |
| Table 3: Yarn and Fabric Production..... | 6 |
| Trade..... | 6 |
| Table-4: MONTHLY IMPORT AND EXPORT OF COTTON..... | 7 |
| Cotton Tariffs..... | 7 |
| Stocks | 7 |

Executive Summary

Pakistan's MY 2007/08 cotton crop is forecast to be its second largest ever at 2.265 million metric tons (MMT, lint basis) due to based on better productivity, improved technology, and good management practices adopted by the cotton growers. This forecast is based on strong demand from Pakistan's textile industry, which is expected to consume 2.736 MMT of cotton. Progressive textile mills are focusing on producing better-quality products, particularly for the export market. As a result, Pakistan is a major cotton importer, especially for U.S. upland and Pima cotton. In the face of rising domestic prices and continued contamination problems, local mills are finding the importation of upland cotton increasingly attractive.

Table 1: Cotton Production, Supply and Demand

PS&D Table

Country Pakistan

Commodity Cotton

| | 2005 Revised | | | 2006 Estimate | | | 2007 Forecast | | |
|----------------------|---------------|---------------|-------------------|---------------|---------------|-------------------|---------------|---------------|-----------------------|
| | USDA Official | Post Estimate | Post Estimate New | USDA Official | Post Estimate | Post Estimate New | USDA Official | Post Estimate | Post Estimate New |
| Market Year Begin | 08/2005 | 08/2005 | 08/2005 | 08/2006 | 08/2006 | 08/2006 | 08/2007 | 08/2007 | 08/2007 |
| Area Planted | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 (HECTARES) |
| Area Harvested | 3100 | 3100 | 3103 | 3250 | 3260 | 3250 | 0 | 0 | 3000 (HECTARES) |
| Beginning Stocks | 3461 | 3028 | 3461 | 2872 | 2590 | 2872 | 0 | 0 | 2260 1000 480 lb. B2 |
| Production | 9850 | 9847 | 10165 | 9850 | 10623 | 9916 | 0 | 0 | 10405 1000 480 lb. B2 |
| Imports | 1658 | 1897 | 1615 | 2100 | 2181 | 2343 | 0 | 0 | 2485 1000 480 lb. B2 |
| MY Imports from U.S. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 1000 480 lb. B2 |
| Total Supply | 14969 | 14772 | 15241 | 14822 | 15394 | 15131 | 0 | 0 | 15150 1000 480 lb. B2 |
| Exports | 322 | 440 | 288 | 200 | 418 | 290 | 0 | 0 | 300 1000 480 lb. B2 |
| Use | 11750 | 11717 | 12056 | 12100 | 12107 | 12603 | 0 | 0 | 12665 1000 480 lb. B2 |
| Loss | 25 | 25 | 25 | 25 | 25 | 25 | 0 | 0 | 25 1000 480 lb. B2 |
| Total Dom. Cons. | 11775 | 11742 | 12081 | 12125 | 12132 | 12581 | 0 | 0 | 12570 1000 480 lb. B2 |
| Ending Stocks | 2872 | 2590 | 2872 | 2497 | 2844 | 2260 | 0 | 0 | 2280 1000 480 lb. B2 |
| Total Distribution | 14969 | 14772 | 15241 | 14822 | 15394 | 15131 | 0 | 0 | 15150 1000 480 lb. B2 |
| | 23.790 | | 23.2663 | 20.300 | 22.7065 | 17.5288 | | | 17.5858 |
| Stock to Use % | 59 | 21.3046 | 6 | 81 | 9 | 9 | 0 | 0 | 1 (PERCENT) |
| Yield | 692 | 692 | 713 | 660 | 709 | 664 | 0 | 0 | 755 (KG/HA) |

Production

Assuming a normal monsoon, Pakistan's MY 2007/08 cotton lint production is forecast at 2.265 MMT, up 106,467 MT from the revised estimate for the previous year. This increase is mainly in response to better prices received by producers throughout MY 2006/07 over and above the indicative prices fixed by the government. This year cotton yields are forecast to be higher due to improved yields, largely due to the expected increase in Bt cotton, improved management practices, and the availability of better quality inputs. Pakistani farmers, inspired by increased cotton production in neighboring countries, India and China, are keen to cultivate transgenic cotton varieties, especially in the core cotton-producing areas of Punjab and Sindh.

Pakistan's MY 2007/08 cotton crop is off to a good start due in part to near normal weather conditions, accompanied by a sufficient supply of inputs. The crop is planted from the end April through June and is harvested in the fall. Planted area is influenced by the relative prices of competing crops, such as sugarcane and paddy, weather forecasts, and government policy. MY 2007/08 cotton area is forecast at 3.0 million hectares, about 1 percent less than the area planted last year, due to better returns from sugarcane and rice.

The major threat to Pakistani cotton, at present, is the prevalence of Cotton Leaf Curl Virus (CLCV). Thus far, there are no varieties that are resistant to this disease. Researchers are working to develop resistant varieties through traditional breeding, hybrid programs, and biotechnology.

Status of Bt Cotton

Pakistan is working to produce local varieties of Bt cotton. In April 2005, the government enacted the Biosafety Guidelines and Rules, which established regulations for developing transgenic plants varieties. The Center of Excellence in Molecular Biology (CEMB) and National Institute for Biotechnology and Genetic Engineering (NIBGE) have submitted proposals to the National Biosafety Committee (NBC) for approval to begin field tests in accordance with the normal seed certification system established by the Seed Act of 1976 for the commercial release and general cultivation of these new varieties.

Due to delays in establishing biosafety regulations and a desire to develop Bt varieties indigenously, sources estimate that Pakistan is ten years behind major cotton-producing countries in the commercial use of Bt cotton. Last year, farmers planted an estimated 500,000 acres or about 5 percent of the crop in illegal Bt varieties, some of which were developed by a local institute; NIBGE where work on transgenic cultivar is under trial and most from pirated varieties from India, China, and Australia. This year, farmers are expected to plant about 30 percent of the crop in illegal Bt varieties. This poses several serious problems. First the pirated varieties have not been developed for Pakistan's agronomic conditions and do not always perform well, especially against CLCV. Secondly, farmers have no assurance they are purchasing quality Bt seeds (or whether they actually are Bt seeds) but nonetheless will reduce spraying increasing the risk of increased pest damage, particularly later in the season. Industry sources expect most of the crop will be planted in illegal Bt varieties in the next several years at about which time, local varieties are expected to be available. However, as in India, it will then take several more years to straighten out the situation, with the crop and Pakistan's main industry at risk the entire time.

Production Policy

Cotton is the backbone of Pakistan's economy. The GOP announces the Minimum Support Price (MSP) for cotton at the start of each marketing season. The Trading Corporation of Pakistan (TCP) is held responsible for intervening in the market if the prices fall below the MSP. During the past two years, prices generally remained above the MSP and TCP did not procure any cotton. For MY 2007/08, the Government of Pakistan (GOP) maintained the support price announced the previous year of Rs.1025 per 40 Kg (\$1 = Rs. 60). Despite what turned out to be a good crop in MY 2006/07, the initial uncertainty over the size of the crop proved sufficient to spur market speculations early in the year, which in turn, increased farm-gate prices to the benefit of the farmer. During the past two years, good returns to cotton production have encouraged farmers to adopt better management practices.

Consumption

Pakistan's cotton consumption for MY 07/08 is forecast at 2.736 MMT, marginally less than the revised estimate of MY 2006/07. This decrease is due to the bearish trend in world yarn and textile prices. During the first 7 months of MY 2006/07 (July-February), cumulative trends for Pakistan's cotton and textile trade were as follows: gross export of raw cotton decreased by 17.3 percent, cotton yarn exports increased by 0.2 percent, linens declined by 6.4 percent, towels rose by 1.7 percent, and cotton cloth declined by 17.2 percent; while synthetic fiber grew by 133.5 percent, knitwear rose by 12.2 percent, and ready made garments grew by 2.1 percent. Investment in the textile sector is decreasing: the importation of textile machinery from July 2006 to February 2007 declined by 32.6 percent, compared with the corresponding period for the preceding year.

The ginning, spinning, and weaving industries have to invest heavily in new equipment as well as to renovate existing mills to keep abreast of new technologies in order to compete in the international market. Looking toward the future, the textile industry knows to remain competitive in the global market, it must aggressively pursue quality improvements and product diversification to include more value-added products, rather than rely on low-value yarn-based exports, to remain competitive.

Synthetic fiber continues to gain acceptance among consumers who increasingly seek less expensive blended products to compensate for their shrinking buying power. The future growth in cotton versus synthetic fiber will be determined by the relative price of these items. The long-term trend is for synthetics to comprise an increasing share of domestic consumption. Cotton- synthetic blends are popular due to their durability and ease in washing and maintenance under tropical conditions. The growth in synthetic fiber use has shown an increase despite rising petroleum prices in the international market.

Table 2: Cotton and Synthetic Fiber Consumption

| Year 1/ | Cotton (MT) | Synthetics (MT) |
|----------------|--------------------|------------------------|
| 1999/00 | 1,566,348 | 404,008 |
| 2000/01 | 1,673,280 | 405,038 |
| 2001/02 | 1,755,669 | 409,557 |
| 2002/03 | 1,780,963 | 406,515 |
| 2003/04 | 1,933,679 | 468,982 |
| 2004/05 | 2,124,408 | 498,416 |
| 2005/06 2/ | 2,039,964 | 460,475 |

1/ July-June Marketing Year Data: Based on reporting mills information /Textile Commissioners Organization

2/ July-May Data Only: Based on reporting mills information/Textile Commissioners Organization

Source: Ministry of Industries and Ministry of Finance, Government of Pakistan

Table 3: Yarn and Fabric Production

| Year | Yarn (MT) | Cotton Cloth (Mil. Square meter) |
|-------------|----------------------|-------------------------------------------------|
| 1999/00 1/ | 1,669,900 | 437.2 |
| 2000/01 | 1,721,000 | 490.2 |
| 2001/02 | 1,808,600 | 568.4 |
| 2002/03 | 1,915,160 | 576.6 |
| 2003/04 | 1,473,240 | 581.706 |
| 2004/05 | 1,770,340 | 842.292 |
| 2005/06 2/ | 1,570,469 | 782.906 |

1/ July/June Marketing Year**2/ July - May Data**

Source: Ministry of Industries and Ministry of Finance, Government of Pakistan

Trade

In MY 2007/08, Pakistan is projected to be a net importer of cotton as a result of strong domestic demand for better grades of cotton. During the first eight months of MY 2006/07, Pakistan imported 315,753 MT of cotton and exported 42,138 MT. Firms often import upland cotton for their export programs due to contamination problems in local cotton, particularly with alien fibers, mainly polypropylene and jute. The problem occurs during the harvest and handling and the inclusion of these fibers wreaks havoc in the industry by creating yarn with differential yarn strength and differential dye uptake. Estimates are that contamination increases a mills' cost by 10 percent or more. Some mills have standardized their blend for export markets, with a predefined origin and percentage of imported cotton in the product. During MY 2003/04 and MY 2004/05 Pakistan remained one of the largest buyer of U.S. Pima/ELS cotton but during MY 2005/06 pima imports decreased drastically due to more than 60 percent increase in its price, coupled with the difficulties Pakistani importers face obtaining visas to the United States. Given the focus on higher-count yarns and better quality fabrics for the export market and specialized products demanded by the domestic market, Pakistan's textile industry is expected to rely increasing on U.S. Pima cotton and contamination-free upland cotton.

Pakistan's import of long staple and other medium to long staple cotton is expected to be affected by GOP's May 10, 2007, decision to allow imports of long staple cotton through land routes from India and Central Asia. Sources indicate it may be as much as \$83 per ton cheaper to import Indian cotton via land routes than by sea. For land import, the Ministry of Food, Agriculture and Livestock (MINFAL) plans to establish quarantine posts at Wagha, Torkhum and Chaman.

Table-4: MONTHLY IMPORT AND EXPORT OF COTTON

| SEASON / MONTH | IMPORT | | EXPORT | |
|----------------|----------|-------------|--------|-------------|
| | Bales | Metric Tons | Bales | Metric Tons |
| August 2005 | 86,512 | 14,707 | 19,182 | 3,261 |
| September " | 131,741 | 22,396 | 21,082 | 3,584 |
| October " | 168,959 | 28,723 | 41,159 | 6,997 |
| November " | 166,818 | 28,359` | 36,659 | 6,232 |
| December " | 192,424` | 32,712 | 41,953 | 7,132 |
| January 2006 | 1963,282 | 32,858 | 37,494 | 6,374 |
| February " | 161,488 | 27,453 | 28,641 | 4,869 |
| March " | 478,041 | 232,456 | 36,594 | 6,221 |
| April " | 111,941 | 19,030 | 24,659 | 4,192 |
| May " | 100,694 | 17,118 | 32,565 | 5,536 |
| June " | 139,312 | 23,683 | 26,906 | 4,574 |
| July " | 136,571 | 23,217 | 5,400 | 918 |
| August " | 158,600 | 26,962 | 11,282 | 1,918 |
| September " | 80,524 | 13,689 | 18,906 | 3,214 |
| October " | 105,712 | 17,971 | 30,047 | 5,108 |
| November " | 216,788 | 36,854 | 39,618 | 6,735 |
| December " | 195,206 | 33,185 | 38,294 | 6,510 |
| January 2007 | 406,465 | 69,099 | 25,459 | 4,328 |
| February " | 398,900 | 67,813 | 36,029 | 6,125 |
| March " | 295,176 | 50,180 | 48,235 | 8,200 |

Source: - Federal Bureau of Statistics, Govt. of Pakistan

Note: - One bale is equaled to 375 lbs (170 Kg)

Cotton Tariffs

The Government of Pakistan follows a free trade policy in cotton. There is no quantitative restriction or duty on imports or exports of cotton.

Stocks

MY 2007/08 carry over stocks are forecast to increase based on higher domestic production accompanied by enhanced import of medium and long staple cotton during the year. Most mills will be covered through November and December 2007, when the bulk of domestic crop will come onto the market.